

VZCZCXRO8990
PP RUEHRG
DE RUEHBR #0617/01 0992100
ZNR UUUUU ZZH
P 092100Z APR 07
FM AMEMBASSY BRASILIA
TO RUEHC/SECSTATE WASHDC PRIORITY 8610
RUEHSO/AMCONSUL SAO PAULO 9592
RUEHRI/AMCONSUL RIO DE JANEIRO 4175
RUEHRG/AMCONSUL RECIFE 6493
RUEHME/AMEMBASSY MEXICO 2049
RUEHNE/AMEMBASSY NEW DELHI 0275

UNCLAS SECTION 01 OF 02 BRASILIA 000617

SIPDIS

AIDAC
SENSITIVE
SIPDIS
FROM COUNTRY TEAM BRASILIA

F FOR RTOBIAS
WHA FOR A/S SHANON; PDAS SHAPIRO
USAID LAC FOR AFRANCO
MCC FOR DANILOVICH

E.O. 12958: N/A
TAGS: [EAID](#) [PREL](#) [BR](#)
SUBJECT: FOREIGN ASSISTANCE TO MIDDLE INCOME COUNTRIES

¶1. (SBU) Summary. Internationally, in recent years there has been an emphasis on directing foreign assistance to lower-income developing countries where the levels of poverty are generally more acute. However, this approach may result in insufficient support to the development and poverty eradication efforts of Middle Income Countries (MICs). Under current USG foreign assistance plans, Development Assistance funding would be eliminated in MICs such as Brazil, India and Mexico; USAID missions in those countries would drastically decrease in scale and scope or even close down. This strategy may prove to have serious shortcomings in terms of engagement with large MICs, the overall impact on development, and achievement of the Millennium Development Goals (MDGs). End Summary.

¶2. (U) Definition and classification of Middle Income Countries is not standardized, and there is no universally agreed definition. However, using most income-related criteria, including that of the DAC (between \$826 and \$10,065 GNI per capita) certain USAID-assisted countries such as Brazil, India and Mexico are generally classified as MICs. In addition, these countries share the characteristics of large, populous countries with growing global power.

¶3. (SBU) There are many reasons why the USG and the international community should maintain its support, appropriately defined to this important groups of countries, inter alia:

- to contribute to the eradication of poverty.
- to forestall losing ground with respect to the social and economic progress that has already been achieved.
- to help MICs serve as regional development poles
- to support MICs contribution in the provision of international public goods such as peacebuilding, prevention of communicable diseases, financial stability and environmental sustainability.

Poverty Eradication

¶4. (U) According to estimates by DFID, by 2015, around two-thirds of those living on less than \$2/day will be living in MICs (particularly in the larger ones) as will one-half of those living on less than \$1/day. Current development priorities that focus on low income countries do not sufficiently address this reality and the changing picture of poverty. In addition, beneath aggregate growth in China, India, Brazil and other countries, there is evidence that spatial inequality may be rising. Certain regions of these countries, like the Northeast of Brazil, would be classified as low-income if considered as an independent state. Moreover,

income inequality in MICs is widely perceived to be high, as measured by Gini coefficients, and to contribute to political unrest and social instability that in turn affect people's livelihoods and their capacity to contribute to sustained economic growth. Recent evidence indicates that MDGs may well fall short in MICs, and thus throughout key regions like Latin America. In Brazil, for example, a recent study traced progress on seven MDGs in the Amazon region and showed unsatisfactory progress. Key indicators such as deforestation, HIV/AIDS, and maternal deaths all increased, instead of declining as projected.

Preserving Hard-won Gains

¶5. (U) "Graduation" or progression to MIC status is not always maintained. Movements from one category to another can take place in either direction. DFID estimates that over the last 20 years, 38 countries have fallen back from MIC to LIC status, with only 10 managing to return to MIC status in subsequent years. Changes at the national and international level may not be connected to improvements in people's well being. These improvements are neither inevitable nor systematic, and sustaining such achievements is clearly not inevitable.

Poles of Development

¶6. (U) Particularly in the case of Brazil, India and Mexico, the economic size of these MICs and their dynamism makes them an important driving force for their regions. The international community can take advantage of this to help maximize the positive effects of its aid programs in each recipient region. Clearly, developments in MICs are important for poverty reduction elsewhere and in terms of trade opportunities for low income countries.

International Public Goods

BRASILIA 00000617 002 OF 002

¶7. (U) The large MICs such as Brazil, India and Mexico have an increased impact on global issues. For example, in areas such as health and infectious disease, energy security, climate change and conservation of globally important biological diversity, it is not possible for the international community to seriously engage on these issues without addressing the MICs.

Comment

¶8. (U) USAID should consider the need for a more considered approach to MICs overall, and in particular to the large MICs with growing global power. Other bilateral donors, such as the U.K., Germany, and Japan are scaling up their engagement with MICs, especially those considered to be regional development poles and key points of influence in the regions. USAID should devise a coherent strategy for this group of countries, and devise appropriate, non-traditional methodologies for engaging with MICs, particularly emerging powers who have a critical role in successfully managing global public goods. A strategy should accompany a deeper understanding of the interests of individual MICs, among them a desire to strengthen their role as emerging powers, secure access to technology and expertise, and garner support for mutually beneficial partnerships. Cutting off development assistance to save a relatively small amount of money may be counterproductive should this close off important channels of bilateral communication or starves models designed to address critical poverty and development issues on a national scale.

In particular, the USG may lose influence over decision making in critical areas (environmental protection and control of illegal logging in Brazil, for example) which would eliminate precisely the transformational diplomacy results that are our objective.

CHICOLA